

LAKE COUNTY ASSESSMENT PRACTICES SURVEY

NOVEMBER 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

JOHAN KLEHS, HAYWARD
DEAN ANDAL, STOCKTON
CLAUDE PARRISH, TORRANCE
JOHN CHIANG, LOS ANGELES
KATHLEEN CONNELL, SACRAMENTO

FIRST DISTRICT
SECOND DISTRICT
THIRD DISTRICT
FOURTH DISTRICT
STATE CONTROLLER

JAMES E. SPEED, EXECUTIVE DIRECTOR





STATE BOARD OF EQUALIZATION

PROPERTY TAXES DEPARTMENT

450 N STREET, MIC:62, SACRAMENTO, CALIFORNIA

(PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062)

TELEPHONE (916) 324-5827

FAX (916) 323-5689

www.boe.ca.gov

JOHAN KLEHS
First District, Hayward

DEAN ANDAL
Second District, Stockton

CLAUDE PARRISH
Third District, Torrance

JOHN CHIANG
Fourth District, Los Angeles

KATHLEEN CONNELL
State Controller, Sacramento

JAMES E. SPEED
Executive Director

November 29, 2001

TO COUNTY ASSESSORS:

No. 2001/081

LAKE COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Lake County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

Mr. Doug Wacker, Lake County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report and the county assessor's response constitute the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Lake County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from May through June 2000. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Dan L. Irwin, who was the Lake County Assessor-Recorder during our fieldwork, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property Taxes Department

DJG:jm
Enclosure

TABLE OF CONTENTS

INTRODUCTION.....	1
SCOPE OF ASSESSMENT PRACTICES SURVEYS.....	2
EXECUTIVE SUMMARY	3
RESULTS OF THE 1995 SURVEY	8
OVERVIEW OF THE LAKE COUNTY ASSESSOR'S OFFICE	10
ADMINISTRATION	11
APPRAISER CERTIFICATION.....	11
DISASTER RELIEF.....	11
ASSESSMENT ROLL CHANGE PROCEDURES.....	12
RELIGIOUS AND CHURCH EXEMPTIONS.....	13
LOW-VALUE PROPERTY EXEMPTION	13
STATE-COUNTY PROPERTY TAX ADMINISTRATION LOAN PROGRAM	14
ASSESSMENT APPEALS.....	14
ASSESSMENT OF REAL PROPERTY.....	15
CHANGE IN OWNERSHIP	15
NEW CONSTRUCTION	16
DECLINE IN VALUE	17
TAXABLE POSSESSORY INTERESTS.....	18
TAXABLE GOVERNMENT-OWNED PROPERTY.....	20
CALIFORNIA LAND CONSERVATION ACT PROPERTY.....	21
RURAL PROPERTY	23
TIMBERLAND PRODUCTION ZONES	24
LEASEHOLD IMPROVEMENTS	24
MINERAL PROPERTY	25
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....	27
BUSINESS PROPERTY STAFFING	27
BUSINESS PROPERTY STATEMENT PROCESSING	27
AUDIT PROGRAM	28
BUSINESS PROPERTY VALUATION.....	29
LEASED EQUIPMENT	30
MANUFACTURED HOMES	30
AIRCRAFT	32
VESSELS.....	33
APPENDICES.....	35
A. COUNTY PROPERTY TAX DIVISION SURVEY GROUP	35
B. RELEVANT STATUTES AND REGULATIONS	37
ASSESSOR'S RESPONSE TO BOE'S FINDINGS.....	43

INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Lake County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing, the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Lake County Grand Jury, and the Lake County Assessment Appeals Board. That response is to be filed within one year of the date the report is issued, and annually thereafter until all issues are resolved. Mr. Doug Wacker, Lake County Assessor-Recorder,¹ elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

¹ This report covers only the assessment functions of his office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. In addition, Revenue and Taxation Code section 75.60² requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Lake County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Lake County with information relevant to its property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined by rule 371.³

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on our analysis that indicates statutory violations, under- or over-assessments, or unacceptable appraisal practices may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

² All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

³ All rule references are to Title 18, Public Revenues, California Code of Regulations.

EXECUTIVE SUMMARY

This report presents recommendations for improvement, but it also attempts to note those program elements that are particularly effective and efficient. It also highlights areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

- In our last survey we made ten recommendations. The assessor fully implemented four recommendations and partially implemented two recommendations. The assessor did not implement three of the recommendations, and, due to a change in regulation, one recommendation no longer applies.
- The assessor's budget for 1999-2000 was \$858,954, which funded 16.6 positions. The secured and unsecured assessment rolls totaled approximately \$3.4 billion and over 81,000 assessment units.
- We found that the assessor and his appraisers possess the BOE-issued certificates required by section 670.
- To improve the discovery of properties eligible for disaster relief, we recommend the assessor obtain fire reports from local fire departments.
- Where appropriate, we recommend the assessor instruct the county auditor to impose interest on escape assessments.
- We recommend the assessor apply the appropriate partial exemption to church and religious exemption claims filed late.
- Since the cost of processing low-value assessments did not exceed the projected revenues, the assessor determined that a low-value property exemption would be inappropriate.
- At the time of our survey, the State Department of Finance determined that Lake County was not eligible for participation in the State-County Property Tax Administration Loan Program.
- We found no problems in the assessor's assessment appeals program.
- We found that the assessor has an effective change in ownership program.
- We found two minor problems concerning the assessment of new construction. First, we recommend the assessor obtain copies of well permits from the county health department. Secondly, we recommend the assessor document the sources of the costs used in the cost approach to value on the appraisal records.

- The assessor has an effective program for the discovery and annual review of properties that have experienced declines in value.
- Taxable possessory interests are the subject of several recommendations. Some fairground taxable possessory interests may be escaping assessment and possessory interests on United States Forest Service land are escaping reassessment upon changes in ownership. We also make two recommendations that address the valuation of taxable possessory interests.
- We recommend the assessor review certain nonassessed government-owned properties to determine if they are taxable.
- California Land Conservation Act properties are the subject of four recommendations. (1) The assessor should annually value all CLCA property. (2) When capitalizing the income stream of CLCA property, the assessor should use an income model that reflects the shape of the income stream. (3) The assessor should assess packing plants and farm laborer housing as non-restricted improvements. (4) The assessor should utilize periodic mailings of CLCA questionnaires to obtain current rental and compatible use income.
- We make two recommendations addressing the assessment of orchards and vineyards. (1) The assessor should enroll orchards and vineyards coming off exemption during the proper year. (2) The assessor should enroll orchards and vineyards as improvements.
- The assessor should send annual questionnaires to Timberland Production Zone property owners to discover existing, compatible, nonexclusive uses.
- Mineral property base year values must be adjusted annually for depletion resulting from production.
- Procedures for assessing geothermal properties need revision.
- We recommend the assessor review the participants in the direct billing program.
- The assessor has an inadequate staff to meet the needs of his business property assessment program; we recommend that he hire an additional auditor-appraiser.
- Audits required by section 469 should be kept current.
- We recommend that the assessor discontinue using minimum valuation factors when assessing business personal property.
- We found that the assessor uses the BOE-prescribed valuation factors for computers and has an effective program for the discovery and assessment of leased equipment.

- Two recommendations address the assessment of manufactured homes. (1) The assessor should classify manufactured homes as personal property. (2) When performing decline-in-value reviews, the assessor should assess manufactured homes at their full cash values.
- The assessor should deny historical aircraft exemptions if claimants submit untimely claims.
- We recommend the assessor annually update the market study of vessel values.
- Despite the problems noted above, we found that most properties and property types are assessed correctly.
- We found no significant assessment problems as defined by rule 371. Accordingly, pursuant to section 75.60, Lake County continues to be eligible for recovery of costs associated with administering supplemental assessments.⁴

Here is a list of formal recommendations contained in this report, arranged in the order they appear in the text.

RECOMMENDATION 1:	Obtain fire reports from local fire departments to discover property eligible for disaster relief.	11
RECOMMENDATION 2:	Cite section 531.4 on the tax change form to ensure the county auditor-controller includes section 506 interest on escape assessments where appropriate.	12
RECOMMENDATION 3:	Grant only partial exemptions when property owners submit late-filed church and religious exemption claims.	13
RECOMMENDATION 4:	Obtain copies of water well permits from the county health department.	16
RECOMMENDATION 5:	Document the source of costs used in the appraisal of new construction when using the cost approach.	17
RECOMMENDATION 6:	Review private uses at the Lake County Fairgrounds to determine whether taxable possessory interests exist.....	18
RECOMMENDATION 7:	Reassess taxable possessory interests upon a change in ownership.....	18
RECOMMENDATION 8:	Add the present value of unpaid future contract rents to the nominal selling prices of possessory interests.	19

⁴ All "rule" references are to Title 18, California Code of Regulations.

RECOMMENDATION 9:	Use the appropriate net income when applying the income approach to value a taxable possessory interest.	19
RECOMMENDATION 10:	Determine whether government-owned properties located outside those agencies' boundaries are assessable.	20
RECOMMENDATION 11:	Annually value all CLCA property.....	21
RECOMMENDATION 12:	Use the appropriate income stream shape when valuing CLCA properties.....	21
RECOMMENDATION 13:	Assess non-restricted improvements at the lower of current market value or factored base year value.	22
RECOMMENDATION 14:	Utilize periodic CLCA questionnaires to obtain current rental, expense, and compatible use income data.	23
RECOMMENDATION 15:	Enroll orchards and vineyards coming off exemption in the proper year.	23
RECOMMENDATION 16:	Enroll orchards and vineyards as improvements.	24
RECOMMENDATION 17:	Send annual questionnaires to Timberland Production Zone property owners to discover existing, compatible, nonexclusive uses.	24
RECOMMENDATION 18:	Adjust mineral property base year values for depletion resulting from production as required by rule 469.	25
RECOMMENDATION 19:	Revise procedures for assessing geothermal properties pursuant to rule 473.	26
RECOMMENDATION 20:	Hire at least one additional auditor-appraiser.....	27
RECOMMENDATION 21:	Include in the direct billing program only those accounts that have historically reported stable costs.	28
RECOMMENDATION 22:	Timely complete all mandatory audits.	29
RECOMMENDATION 23:	Discontinue the use of minimum valuation factors.	29
RECOMMENDATION 24:	Classify manufactured homes as personal property.	31
RECOMMENDATION 25:	Comply with section 5803(b) when enrolling the full cash value of a manufactured home upon a decline in value.	32

RECOMMENDATION 26:	Grant the historical aircraft exemption only upon submission of a timely claim.	33
RECOMMENDATION 27:	Update the market study of vessel values annually.	33

RESULTS OF THE 1995 SURVEY

California Land Conservation Act Properties

We made a four-part recommendation directed toward the assessment of properties under California Land Conservation Act (CLCA) contracts. That recommendation addressed the annual appraisal of properties under CLCA contracts, revisions to the CLCA operating statement, using appropriate income and expense data, and the use of personal computers to value CLCA properties.

We found the assessor implemented only our recommendation to use a personal computer in the appraisal of CLCA properties. We repeat our other recommendations in this report.

Taxable Possessory Interests

Taxable possessory interests were the subjects of a five-part recommendation. That recommendation addressed revising the assessor's filing system for possessory interests, reducing the assessor's reliance on the cost approach to value, enrolling possessory interests at the Lake County Fairgrounds, assessing all possessory interest grazing rights, and adjusting reported sales prices by adding the present worth of unpaid contract rents. We found that the assessor has implemented all parts of the recommendation except for enrolling all taxable possessory interests located at the fairgrounds and adjusting reported sales prices by the adding present worth of unpaid contract rents. Consequently, we repeat and revise those recommendations in this report.

Manufactured Homes

We recommended the assessor classify manufactured homes, except those on permanent foundations, as personal property. We found that the assessor continues to enroll manufactured homes as structures. Therefore, we repeat our prior recommendation in this report.

Taxable Government-Owned Properties

We recommended the assessor properly assess all taxable government-owned properties. While the assessor has corrected the assessments of the specific properties that led us to make that recommendation, we found continued problems in the assessor's treatment of taxable government-owned properties.

Mineral Property

We recommended the assessor use the concepts outlined in rule 469 when assessing mining property, particularly in regard to the depletion of reserves no longer present on the property. We

found that the assessor has not implemented this recommendation; therefore, we repeat it in this report.

Audit Program

We recommended the assessor timely complete all audits required by section 469. We found that the assessor still fails to meet the requirements of section 469; therefore, we repeat the recommendation in this report.

We also recommended the assessor seek waivers of the statute of limitations in all situations where mandatory audits will not be completed on time. We found that the assessor now routinely seeks such waivers.

Business Property Valuation

Our prior survey included a recommendation that the assessor use the percent good tables found in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*. We found that the assessor has implemented this recommendation.

Situs of Taxable Property

We recommended that, when assessing property owned by leasing companies, the assessor enroll that property in the tax rate area in which it is situated. Rule 204 has since been amended to permit the assessor's practice of assessing such property at the taxpayer's primary place of business. Thus, our recommendation no longer applies.

Apartment Personal Property

We recommended the assessor revise the discovery and assessment procedures for apartment personal property. During our current survey, we found that the assessor now has an effective apartment personal property discovery program.

OVERVIEW OF THE LAKE COUNTY ASSESSOR'S OFFICE

Budget and Workload

For fiscal year 1998-99, the assessor operated on a budget of \$830,954; the adopted budget for 1999-2000 was \$858,861. The assessor has a staff of 16.6.

The total assessed value for the 1999-2000 assessment roll was \$3,295,880,000, including both the secured and unsecured rolls. That assessment roll consisted of over 81,000 units.

Assessment Roll by Property Type

The following chart displays pertinent information from the 1998-99 assessment roll. This information is taken from the BOE publication *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices 1998-99*, July 2000. Due to the assessor's conversion to a new computer system, complete statistics for the 1999-2000 assessment roll are unavailable.

<u>Property Type</u>	<u>Number of Assessments</u>	
	<u>in County</u>	<u>Enrolled Values</u>
Residential	57,947	
Commercial	2,153	
Industrial	50	
Rural	3,259	
Miscellaneous (including manufactured homes)	<u>4,022</u>	
Total Secured Roll	67,431	\$3,006,722,000
Total Unsecured Roll		
(personal property except manufactured homes)	<u>14,282</u>	<u>215,093,000</u>
Total Roll	<u>81,713</u>	<u>\$3,221,815,000</u>

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined appraiser certification, disaster relief procedures, changes to the completed assessment roll, low-value property exemption, the State-County Property Tax Administration Loan Program, and the preparation and presentation of assessment appeals.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Based on the most current BOE training and certification report and updated information obtained from the assessor, we found that the assessor and his staff possess the required certificates.

Disaster Relief

The Revenue and Taxation Code authorizes property tax relief to owners of property damaged or destroyed by a calamity or a disaster. Section 170 permits the county board of supervisors to adopt an ordinance authorizing property tax relief on qualifying damaged property. The ordinance may limit relief to property located in an area proclaimed by the Governor to be in a state of disaster, or the board of supervisors may adopt an ordinance that includes any misfortune or calamity.

On February 17, 1998, the Lake County Board of Supervisors enacted Ordinance No. 2426, authorizing disaster relief pursuant to section 170. This ordinance permits the assessor to provide property tax relief where damage from a misfortune or calamity equals or exceeds \$5,000.

RECOMMENDATION 1: Obtain fire reports from local fire departments to discover property eligible for disaster relief.

We found that the assessor does not request or receive a listing of structural fires from any of the fire agencies in Lake County. The assessor should utilize all available sources to discover properties suffering from misfortunes or calamities. These sources include building permits, fire reports, newspaper articles, etc.

We recommend the assessor obtain fire reports from local fire departments to help discover additional properties that may qualify for disaster relief.

Assessment Roll Change Procedures

Roll changes occur when the assessor changes assessed values after the assessment roll has been turned over to the county auditor. After the roll is delivered to the auditor, changes may be made, with a few exceptions, any time within four years of the date of the assessment being corrected. Roll changes are authorized for a variety of reasons by sections 531, 4831, and 4831.5. The most typical roll changes result from taxpayers' reporting errors, escaped new construction, clerical errors, and current market values that are less than factored base year values.

We reviewed the assessor's roll change procedures and found the procedures in compliance with applicable statutory and regulatory requirements.

Escape Assessments

An escape assessment is an assessment made after the assessor has certified the completed local roll and delivered it to the county auditor. Upon discovery of property escaping assessment, the assessor must add the escape assessment and any applicable penalty to the assessment roll. We reviewed the assessor's escape assessment procedures.

RECOMMENDATION 2: Cite section 531.4 on the tax change form to ensure the county auditor-controller includes section 506 interest on escape assessments where appropriate.

Certain types of escape assessments require the imposition of interest on the amount of the tax, as set forth in section 531 et. seq. Section 531.4 requires the imposition of section 506 interest for incorrect reporting on a BOE-prescribed property statement or form, of property held or used in a profession, trade, or business. When enrolling an escape assessment subject to section 506 interest, citing section 531.4 will inform the auditor-controller to add that interest on the resulting tax bill.

We found that the assessor did not cite section 531.4 when processing escape assessments subject to statutory interest. We found examples of this oversight in escape personal property assessments and in the correction of erroneously granted homeowners' exemptions.

When enrolling escape assessments, we recommend the assessor cite section 531.4, where appropriate, to ensure the auditor-controller includes interest on those escape assessments.

Religious and Church Exemptions

Article XIII, section 3(f) of the California Constitution exempts from property taxation buildings, the land on which they are situated, and equipment used exclusively for religious worship. Section 4 (b) of article XIII of the California Constitution also permits the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes and owned or held in trust by corporations or other entities that: (1) are organized and operated for those purposes, (2) are non-profit, and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual.

Pursuant to article XIII, section 4(b), the Legislature has enacted the welfare exemption, the church exemption, and the religious exemption. While the welfare exemption is co-administered by the BOE and county assessors, the religious and church exemptions are administered directly by the county assessor.

RECOMMENDATION 3: Grant only partial exemptions when property owners submit late-filed church and religious exemption claims.

One staff member processes of church and religious exemption claims in Lake County. Claim forms and notices for church and religious exemptions are mailed out annually. While most of the applications appear to have been processed correctly, we found that some exemptions had been granted fully when the claim form was received late.

Section 270 provides that when an application for exemption is not filed timely (by February 15th), only 90 percent of the exemption is allowed—if it is filed by the following January 1st. If the application is filed after the January 1st deadline, only 85 percent of the exemption is allowed. Section 270(2)(b) limits any penalty to \$250.

We recommend the assessor apply the appropriate partial exemption, pursuant to section 270, for late-filed church and religious exemption claims.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt all real property with a base year value, and personal property with a full value so low that, if not exempt, the total taxes would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine the point at which the cost of processing assessments and collecting taxes exceeds the funds collected.

We found that Lake County does not have a low-value property exemption and that the assessor properly enrolls low-value property. After studying the cost of assessing low valued properties and the projected revenues they would generate, the assessor found that such properties infrequently changed ownership and that when they did, little if any appraisal time was necessary to determine a transfer value. Since the cost of processing these assessments and collecting the

resulting taxes did not exceed the projected revenues, the assessor determined that a low-value property exemption would be inappropriate for Lake County.

State-County Property Tax Administration Loan Program

Enactment of section 95.31 established the State-County Property Tax Administration Loan Program (PTAP). This program provides state-funded loans to eligible counties for the improvement of property tax administration. Since the Department of Finance determined that Lake County's additional property tax revenues would not result in a reduction of General Fund apportionment to schools, Lake County was not eligible for participation in the PTAP.

Assessment Appeals

The assessment appeals function is mandated under article XIII, section 16, of the California Constitution. Sections 1601 through 1641.1 are the statutory provisions governing county boards of supervisors in the appeals function. In addition, Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. Pursuant to that mandate, the BOE adopted rules 301 through 326 regarding assessment appeals.

A review of the appeals function involves the activities of both the assessor's office and the county assessment appeals board, as they relate to assessment appeals. The two agencies must have a good working relationship in order to make the entire appeals process effective and efficient, particularly in the case of scheduling and document processing. However, at the same time, they must maintain the statutory separation of authority and responsibilities. The following chart displays how assessment appeals were resolved during recent assessment years.

Roll Year	Appeals Resolved	Method of Resolution					
		AAB Cases Heard			Denied for Lack of Appearance	Stipulations	Withdrawn
		Reduced	Sustained	Increased			
99-00	60	0	50	0	3	3	4
97-98	28	0	0	0	8	3	17
96-97	11	0	0	0	1	9	1

Note: No data was available for the assessment year 1998-99.

We reviewed the assessor's preparation for three of the 28 pending assessment appeals. We found that the assessor competently prepares his defense of assessment appeals.

ASSESSMENT OF REAL PROPERTY

Article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value, factored at no more than 2 percent per year for inflation unless there is a change in ownership or new construction. The 1975 full cash value and subsequent values that result from a change in ownership or new construction are known as base year values.

The assessor's real property assessment program includes: (1) revaluation of properties that have changed ownership, (2) valuation of assessable new construction, (3) annual review of properties having market values below their factored base year values, and (4) annual review of certain properties subject to special assessment provisions.

Change in Ownership

One of the assessor's duties is to identify and value real property that has changed ownership. Section 60 defines a change in ownership as the transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

Sections 62 through 69.5 exclude certain transfers from the definition of change in ownership. Exclusions include, but are not limited to, interspousal transfers, qualifying transfers between parents and children, and property acquired as a replacement for property taken by eminent domain.

Most often, assessors learn of changes in ownership when deeds are recorded at the county recorder's office. Lake County has combined the assessor's and recorder's offices. Consequently, the assessor also has the duties of the county recorder. The assessor's staff reviews each recorded deed to discover changes in ownership that trigger new base year values. For the 1998-1999 assessment year, there were about 3,800 reappraisable changes in ownership. We found that the assessor has an effective change in ownership program.

PCOR/COS Processing

In addition to the recorded deeds, the assessor also receives Preliminary Change of Ownership Reports (PCOR's). Section 480 requires transferees of locally assessed real properties to file a Change in Ownership Statement (COS) with the county recorder or assessor, and it provides for a penalty for failure to file such a statement after a written request by the assessor. Most transferees meet this requirement by filing a PCOR at the time the transfer document is recorded. About 90 percent of all transfer documents are accompanied by PCOR's. For the remaining 10 percent, where no PCOR was filed or an incomplete PCOR was filed, the assessor mails a COS to the transferee. If a transferee fails to file a requested COS, the assessor imposes the nonfiling penalty specified in section 482.

Legal Entity Ownership Program (LEOP)

Section 64(c) provides that a change in control of a legal entity is a change in ownership of all real property owned by that legal entity, as of the date of the change in control. In that situation, the real property owned by the legal entity is subject to reappraisal. The Legal Entity Ownership Program (LEOP) of the BOE's Policy, Planning, and Standards Division assists assessors in the discovery of legal entities that have experienced changes in control.

Each reported change in control is investigated and verified by the LEOP staff. The LEOP unit periodically transmits a list of entities to each county indicating the date of each change in control and the affected parcels within that county. Since our previous 1995 assessment practices survey, the LEOP unit notified the assessor of changes in control of 62 legal entities that affected 107 real property parcels in Lake County.

We reviewed a number of appraisal records of properties listed in recent LEOP reports. The assessor had reappraised all parcels shortly after notification by the LEOP unit. Appraisal records were properly documented for the reported changes in control.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from the building permits issued by various government agencies. Other discovery methods include reviewing business property statements, aerial photographs, news reports, and field inspections.

Discovery

Although the assessor receives building permits from most permit-issuing agencies in Lake County, he does not receive new well permits from the county health department.

RECOMMENDATION 4: Obtain copies of water well permits from the county health department.

While the county health department routinely transmits copies of new septic system permits to the assessor, it refuses to send copies of new well permits, citing confidentiality concerns. This practice is problematic for two reasons: First, by themselves, wells are a form of assessable new construction. Should the assessor fail to discover such a well, it will escape assessment. Second, well permits can inform the assessor of other significant new construction projects. If the assessor does not obtain a copy of the well permit, other significant new construction might also escape assessment.

We recommend the assessor obtain copies of well permits issued by the county health department.

Valuation

While the assessor appears to value and enroll new construction assessments correctly, we found one minor problem in the assessor's application of the cost approach to value:

RECOMMENDATION 5: Document the source of costs used in the appraisal of new construction when using the cost approach.

We found that the assessor, when using the cost approach to value new construction, does not document the source of those costs used in the appraisal. Proper application of the cost approach requires appraisers to document the source of the costs used in their appraisals. Without that documentation, reviewers cannot verify an appraiser's work.

We recommend the assessor document the source of costs on the appraisal records when using the cost approach to appraise new construction.

Decline in Value

Section 51 requires the assessor to value taxable real property, as of the lien date, at the lesser of its factored base year value or the current market value, as defined in section 110. Whenever a property's current market value declines below its factored base year value, for any reason, that lower value must be enrolled as the taxable value for the years of the decline. Any value enrolled as a decline in value requires annual review until the property's current market value exceeds the factored base year value. The factored base year value is then restored as the taxable value.

Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines. Until recently, overall property values in California had been declining. As a result, most assessors' offices were overwhelmed with appeals from taxpayers who felt that their properties had experienced declines in value.

Lake County currently has approximately 5,674 properties with assessed values below their factored base year values. Once identified as having experienced a decline in value, a parcel is tracked by computer, and the assessor reviews its assessment annually. If the property's market value subsequently increases above the factored base year value, the assessor enrolls the factored base year value as the taxable value.

We found that the assessor properly applies all appropriate statutory provisions when assessing properties that have experienced declines in value.

Taxable Possessory Interests

Section 107 and rule 20 define a taxable possessory interest as an interest in real property which exists as a result of possession, exclusive use, or a right to possession or exclusive use of land and/or improvements unaccompanied by ownership of a fee simple or life estate in nontaxable, publicly owned real property.

The 1999 Lake County assessment roll contains approximately 125 taxable possessory interest assessments with a total assessed value of about \$5 million. About 70 of the assessments are homesites on federal lands administered by the United States Forest Service (USFS). The remaining assessments relate to various private uses of lands owned by the county, other local jurisdictions (e.g., the cities of Lakeport and Clearlake), and other instrumentalities of the federal government. One appraiser is responsible for the assessor's taxable possessory interest workload.

RECOMMENDATION 6: Review private uses at the Lake County Fairgrounds to determine whether taxable possessory interests exist.

The 49th District Agricultural Association controls the use of the publicly owned Lake County Fairgrounds. The Association organizes and promotes the annual Lake County Fair and manages the use of fairground property for other private uses, recurrent and continuous, not related to the annual fair. The assessor has enrolled several taxable possessory interests involving the use of fairground property. However, there are several other private beneficial uses of the Lake County Fairgrounds, including a satellite wagering facility for horse racing, that are not assessed and that may constitute taxable possessory interests.

We recommend the assessor review the use of the fairground facility for the possible discovery of additional taxable possessory interests.

RECOMMENDATION 7: Reassess taxable possessory interests upon a change in ownership.

The Lake County assessment roll contains about 70 assessments for cabin sites on federal lands administered by the United States Forest Service (USFS). The current taxable values for most of these properties are based on factored base year values derived from a 1978 base year. Several of the properties in this group have sold over the years, however, and the assessor has not revalued these properties based upon changes in ownership.

Under section 61(b), a change in ownership of a taxable possessory interest includes the creation, renewal, sublease, or assignment of the interest. It is likely that many of the taxable possessory interests in this group have been renewed or assigned since the initial establishment of their base year values in 1978. These properties should have been reassessed and new base year values established because the renewal or assignment of a taxable possessory interest constitutes a change in ownership for property tax purposes. We recommend that the assessor review the assessments for this group of properties for undiscovered changes in ownership.

This recommendation, however, is tempered by the fact that the assessor made several requests for information regarding these taxable possessory interests to the USFS, but he has received no cooperation from the district office of that agency. Under sections 480.5 and 480.6, owners of tax-exempt real property are required to advise the assessor of the creation, renewal, sublease, or assignment of any lease, sublease, license, use permit or other document that conveys the right to use that real property within 60 days of the transaction. Additionally, the United States District Court for the Eastern District of California, in *James W. Maples v. Department of Agriculture* (January 16, 1998) CV-F-97-5663-AWI/DLB, upheld the right of the Kern County Assessor to obtain the names and addresses of permit holders from the USFS, which had withheld the information. While an unpublished opinion, this case confirms an assessor's right to obtain information from the USFS.

We recommend that the assessor continue to request relevant information from the USFS, perhaps with assistance from the Lake County Counsel, in light of sections 480.5 and 480.6 and the federal district court's decision.

RECOMMENDATION 8: Add the present value of unpaid future contract rents to the nominal selling prices of possessory interests.

The "direct method of the comparative sales approach" is one of the generally accepted methods for valuing a taxable possessory interest and is described in rule 25. In this method, an important adjustment to the reported purchase price is the addition of the present value of the unpaid future contract rent over the remaining term of possession.

When determining the value of a possessory interest, appraisers must include the total consideration paid for that possessory interest. To reach that amount, the appraiser must include the future rents that the purchaser has an obligation to pay. If this adjustment is not made, the value indicator will reflect only the buyer's "equity value" in the taxable possessory interest and not the full value of the taxable possessory interest.

We reviewed several taxable possessory interests that had been revalued due to changes in ownership (typically based on an assignment of an existing possessory interest). In each case, the reported purchase price was enrolled as the taxable value without an adjustment for the present value of unpaid future contract rents.

We recommend the assessor adjust the reported purchase price of a possessory interest by adding the present worth of unpaid future contract rents.

RECOMMENDATION 9: Use the appropriate net income when applying the income approach to value a taxable possessory interest.

We found that the assessor capitalized only a pro-rated portion of the expected annual income. For example, if a taxable possessory interest were created in September 1999, the income capitalized would be the estimated income for the three remaining months in the tax year. That

income would then be capitalized over the reasonably anticipated term of possession of the possessory interest. Apparently, this process was used in an effort to prorate the assessment for the first year to reflect the possessor's actual time of occupancy. However, this process is an incorrect application of the income approach.

The "direct method of the income approach" is a generally accepted method for valuing taxable possessory interests. In this method, the appraiser estimates the present value of the expected future net income derived from the use of the property over the possessor's reasonably anticipated term of possession. In most cases, the appraiser capitalizes the property's estimated annual economic, or market rent, less any property-related expenses of the lessor/public owner, at a discount rate that reflects the risk of the expected income.

We recommend the assessor capitalize the expected annual net income over the reasonably anticipated term of possession when using the income approach to value a possessory interest.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11(a) of article XIII of the California Constitution. Section 11(a) provides that land, and the improvements thereon, located outside an agency's boundaries are taxable if the property was subject to taxation at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as "Section 11" properties.

Discovery

RECOMMENDATION 10: Determine whether government-owned properties located outside those agencies' boundaries are assessable.

We compared tax-rate area codes against the tax-rate area index to verify whether government-owned properties were within their agencies' specified boundaries. In addition to 24 known Section 11 parcels, we found several government-owned properties that appear to be located outside those agencies' respective boundaries and may, therefore, be taxable.

We stress that some of these parcels *may* be taxable. Before any action can be taken, each parcel must be researched to determine whether the parcel was taxable when acquired and whether the parcel is, in fact, outside the agency's boundaries. If the property is determined to be a Section 11 property, it should then be assessed in accordance with the provisions of section 11 of article XIII of the California Constitution.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their land. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 prescribe the guidelines for assessing land subject to agricultural preserve contracts.

For the 1999 lien date, Lake County had approximately 48,750 acres (501 parcels) encumbered by 116 CLCA contracts with a total assessed value of \$32,733,252

Valuation of CLCA Property

RECOMMENDATION 11: Annually value all CLCA property.

We found that, with the exception of new CLCA contracts, properties currently under contract have not been valued for at least the past three years. This resulted in the restricted values, non-restricted values, and the values of properties that are in non-renewal status remaining constant during this time.

To fully comply with the value restriction for CLCA property, it is essential that all CLCA property appraisals be reviewed each year. Not only must restricted values be adjusted to reflect changes in rates and incomes, but a comparison must be made between the property's restricted value, market value, and factored base-year value to determine the proper value to enroll. The assessor should also identify and correct assessments of those open-space parcels that have not undergone an annual review, as well as those properties that are in non-renewal status.

We made this recommendation in our two prior surveys. We again recommend that the assessor annually value properties under CLCA contracts.

Income Stream

RECOMMENDATION 12: Use the appropriate income stream shape when valuing CLCA properties.

Currently, the assessor uses a level terminal income stream to value orchards and vineyards. When capitalizing the income attributable to orchards and vineyards, the appraiser must estimate the shape and duration of the remaining income and capitalize it accordingly. The more appropriate income stream for living improvements is an inclining, stable, and declining income stream.

Most living improvements have a similar life cycle. This cycle is composed of three periods, or stages of production. The first is a period of development when production initiates and rises, the

second is a period of maturity when production remains relatively stable, and the third period is a time of declining income as the living improvements near the end of their economic lives. Assuming a level terminal income stream overvalues the inclining and declining portions of that income stream.

We recommend the assessor use an inclining, stable, and declining income stream when capitalizing the income from orchard and vineyard properties.

Valuation of Non-Restricted Sites

All properties not specifically restricted by open-space contracts must be valued for tax purposes in accordance with article XIII A of the California Constitution. Nonliving improvements on open-space properties—not included in the enforceable restriction—must be assessed at the lower of either the current market value or the factored base year value.

RECOMMENDATION 13: Assess non-restricted improvements at the lower of current market value or factored base year value.

While we found that residential sites, residences, and associated outbuildings are valued correctly, we also found that farm laborer housing and a packing plant have been included as part of the CLCA restricted value.

Section 428 provides that the valuation limitations of CLCA property shall not apply to any residence, including any agricultural laborer housing facility. Even though Government Code section 51231 specifically recognizes farm laborer housing as a compatible use of property restricted by a CLCA contract, section 428 precludes the valuation of the housing facility or its site as CLCA-restricted property. Therefore, any residential improvement located on a restricted property must be assessed at the lesser of its factored base year value or current market value.

Section 423(e) provides that nonliving improvements, which contribute to the income of the land, can be appraised as though restricted if the open-space contract contains a provision permitting such valuation. However, Lake County's CLCA contract does not contain such a provision.

We found a fruit packing plant located on a property encumbered by a CLCA contract. This packing plant was valued as part of the CLCA-restricted value. Since Lake County's CLCA contract does not provide for use of the restricted value when valuing such improvements, the plant must be valued in the same manner as other unrestricted nonliving improvements are valued.

We recommend the assessor value nonliving improvements on restricted lands annually at the lesser of their current market value or their factored base year value.

Compatible Use Income

When valuing CLCA property, section 423(a)(1) requires the assessor to capitalize an annual income based upon the rent actually received for the land and upon typical rental received for land in similar use.

RECOMMENDATION 14: Utilize periodic CLCA questionnaires to obtain current rental, expense, and compatible use income data.

The assessor's CLCA questionnaire does not solicit current rents, compatible use income, and expense data. When valuing CLCA property, we found that the assessor uses outdated income data extracted from prior CLCA questionnaires. We recommend the assessor obtain current market rents, compatible use income, and expense data from CLCA landowners, by sending periodic CLCA questionnaires to all landowners whose properties are under contract.

Rural Property

Living Improvements

Fruit and nut-bearing trees and vineyards are exempt from taxation during a portion of their immature life. Section 211 provides for the exemption of fruit and nut-bearing trees until four years after the season in which they were planted in orchard form, and for the exemption of grapevines until three years after the season in which they were planted in vineyard form.

RECOMMENDATION 15: Enroll orchards and vineyards coming off exemption in the proper year.

We reviewed several orchards and vineyard properties that had living improvements coming off exemption. While most of the vineyards were enrolled properly, some vineyards were not, and all the orchards reviewed were improperly enrolled.

We found that there is some confusion as to when to enroll the living improvements when the exemption period has ended. As stated above, fruit and nut-bearing trees are exempt until four years after the season in which they were planted and vineyards until three years after the season in which they were planted. In other words, a vineyard planted in 1996 becomes assessable on lien date, January 1, 2000, while an orchard planted in the same year becomes assessable January 1, 2001.

We recommend the assessor properly enroll living improvements coming off exemption.

Classification of Orchard and Vineyards

Section 105(b) and rule 122 define fruit and nut-bearing trees planted in orchard form and grapes planted as vineyards as improvements. Rule 131(g) provides for the enrollment of fruit and nut-

bearing orchards and vineyards coming off exemption in the improvement column of the assessor's records.

RECOMMENDATION 16: Enroll orchards and vineyards as improvements.

We found several occasions where the values of existing orchards were enrolled as part of the land value. In one case, the appraiser stated that the orchard value was included as part of the land value. According to section 105(b) and rule 131(g), this is an improper allocation of value. In a second case, the new owner of a property stated that he wanted to replace the existing walnut orchard with a vineyard, if possible. Here, the appraiser felt that if the owner might re-plant the orchard, the orchard had no value. By failing to allocate a value to the existing orchard, the value of the orchard became part of the land value by default. Since walnut orchards have very long and productive lives, and this orchard was still in its prime productive cycle, an allocation reflecting the orchard's value should have been made.

We recommend the assessor enroll existing orchards and vineyards as improvements.

Timberland Production Zones

Land zoned as a Timberland Production Zone (TPZ) is subject to specific assessment procedures that exclude the value of the standing timber. For the 1999 lien date, Lake County had approximately 18,670 acres (132 parcels) located on TPZ land. Overall, we found that the assessor is conscientious in his assessment of TPZ lands. There is, however, one area that needs improvement.

RECOMMENDATION 17: Send annual questionnaires to Timberland Production Zone property owners to discover existing, compatible, nonexclusive uses.

Section 435(a) requires assessors to value timberland according to the site value schedules expressed in section 434.5, plus the value of any existing, compatible, nonexclusive uses of land. Although we found that the assessor values permitted exclusive uses such as homesites, cabins, and hunting, there is no systematic canvassing of TPZ landowners to determine whether existing, compatible, nonexclusive uses exist. These uses may include hunting, grazing, camping, mining, and others. The assessor must determine the current market value of those nonexclusive uses annually and add that value to the TPZ site class value.

We recommend that the assessor contact TPZ landowners to discover all existing, compatible, nonexclusive uses.

Leasehold Improvements

Leasehold (or "tenant") improvements are structure or fixture additions to leased property that are paid for by the lessee. Leasehold improvements may vary from simple tenant improvements such as storefronts, interior finish, partitions, etc., to entire buildings. Leasehold improvements

may be enrolled on either the secured roll or the unsecured roll. Although, in some cases, these improvements cannot be enrolled on the secured roll, they must be assessed in the same manner as other real property.

Commercial, industrial, and other types of income-producing properties require constant monitoring by assessors because, as tenants change over a period of time, they may alter the original improvements in a number of ways. Examples include additions, removals, or possibly both, resulting in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment, if they qualify as new construction.

A portion of the BOE-prescribed business property statement (Schedule B of Form 571-L) requires taxpayers to report real property costs incurred for construction, remodeling, or alterations at a given business location; this schedule includes costs expended by tenants for improvements to rented or leased buildings.

The auditor-appraiser reviews costs reported on Schedule B to screen for those he believes to be assessable tenant improvements. Copies of business property statements reporting structure costs are forwarded to the real property appraisers for review.

We found no problems in the assessment of leasehold improvements.

Mineral Property

Mining Property

In our prior survey, we recommended that the assessor implement provisions of rule 469, to account for depletion in reserves in the base year values of mineral properties. Based on discussions with the assessor's staff and examination of the appraisal records, we believe the assessor has not made the necessary changes to his procedures. The current market value of the mineral rights is still being compared to the undepleted base year mineral rights' value.

RECOMMENDATION 18: Adjust mineral property base year values for depletion resulting from production as required by rule 469.

From an examination of the appraisal records, it appears the assessor determines and enrolls the mineral rights' values through of the use of the royalty method. This method is not consistent with the requirements of rule 469(e)(2)(A)(4) and the provisions of the Revenue and Taxation Code that require the assessor to enroll the lower of the adjusted base year value or the current market value.

Rule 469 requires the assessor to make an annual adjustment to the base year value of mineral reserves to account for depletion of the resource. Failure to account for depletion could result in the overassessments of the mineral rights. The correct procedure is to estimate the value of removed reserves by multiplying the quantity of removed reserves by the weighted average value per unit of minerals for all prior base years. The adjusted base year value of the remaining reserves

is found by subtracting the value of the removed reserves from the prior year's adjusted base year value.

We recommend the assessor adjust the base year values of mineral properties to reflect depletion of the mineral resources.

Geothermal Property

When determining the mineral rights values of geothermal properties, the assessor imputes a royalty income to those properties and capitalizes that imputed income to estimate a value. As indicated in our previous survey, we believe that this is not a proper method of valuing geothermal properties.

In the absence of recent sales, we recommend the assessor use the actual income to value these properties. That valuation procedure has recently been made easier with the deregulation and divestiture of electrical generating properties by investor-owned utilities. Many of the geothermal property owners in Lake County have acquired the generators that were once supplied by their geothermal resource. It is now possible to make a value determination of the entire property, and then allocate that value to the various components. Although the assessor, in fact, does this, he attempts to determine the value of the plant using a residual value rather than the value of the mineral rights. Other methods are available to determine the value of the generating plant, which can then be subtracted from the total value to determine the residual mineral rights value.

RECOMMENDATION 19: Revise procedures for assessing geothermal properties pursuant to rule 473.

We found that the assessor uses an arbitrary 10 percent royalty to value geothermal mineral rights. We disagree with that procedure. This method only addresses the lessor's interest in a geothermal property and fails to address the leaseholder's mineral rights value. This method understates the value of the mineral rights interest and the annual adjustment to the base year value to account for depletion of the resource.

While potential errors are related only to the allocation of value, there is no expected effect on the total assessed value of these properties. Rule 473(e)(4) sets forth the recommended method for allocating values and making the necessary adjustments to the base year mineral rights value.

We recommend the assessor value geothermal properties in the manner set forth in rule 473.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Since 1989, the assessor's office has suffered major budget cuts. Currently, only one auditor-appraiser performs all business property assessment duties. These duties include preparing the unsecured roll, business property statement processing, auditing, and boat and aircraft appraisals. For fiscal year 1999-2000, the assessor's office prepared an unsecured assessment roll containing 7,893 assessments, valued at \$197,620,995.

Business Property Staffing

RECOMMENDATION 20: Hire at least one additional auditor-appraiser.

At present the assessor has only one auditor-appraiser. We compared the Lake County Assessor's staffing level to the business property staffing levels of the next five counties having smaller unsecured assessment workloads and the next five counties having larger workloads. We found that all 10 of those counties had at least two auditor-appraisers.

We did not conduct a formal business property workload study. The number of staff needed will vary among counties depending on the types and complexities of properties assigned to the staff. However, it is clear that there is too much work for a staff of one.

The assessor's repeated failure to complete his mandatory audit workload is further evidence that supports this recommendation. (Refer to the Audit Program section on page 28.) Without an adequate staff of auditor-appraisers, the assessor has been unable to meet this statutory obligation.

We recommend the assessor hire at least one additional auditor-appraiser to meet the needs of his business property workload.

Business Property Statement Processing

Section 441 requires that every person owning taxable personal property with an aggregate cost of \$100,000 or more for any assessment year file a signed property statement with the assessor. Section 441 also provides that every person owning personal property that does not require the filing of a property statement shall, upon request of the assessor, file a property statement. If a taxpayer fails to file the property statement and to make business records available, as provided by section 470, section 501 authorizes the assessor to estimate the value, based upon information in the assessor's possession.

Most business property assessments are based upon the data submitted by taxpayers on the annual property statements. The more accurate the data on the statements, the more accurate the assessment roll.

During our current survey, we interviewed the assessor's staff, reviewed the assessor's business property statement processing program, and sampled business property statements processed by the assessor. We found that the assessor's program correctly processes these statements. However, we discovered one area of concern in the assessor's direct billing program.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain qualified low-value business accounts without requiring the annual filing of a business property statement. An initial value is established and continued for a few years, with only periodic property statements or field reviews. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes, restaurants, and professional firms with small equipment holdings.

The direct billing program is beneficial to the taxpayers and the assessor. Direct billing streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the assessor. The assessor has maintained a direct billing program since our 1995 survey.

RECOMMENDATION 21: Include in the direct billing program only those accounts that have historically reported stable costs.

We found that three out of the five direct billing accounts we examined showed substantial increases in assessed value prior to their enrollment in the direct billing program. We also found, through interviews with the assessor's staff, that the assessor has no standards to determine whether an assessee qualifies for enrollment in the direct billing program.

Direct enrollment programs work well when assessees report costs that are stable from one year to the next. When an assessee's property statements report costs that fluctuate widely from one year to another, no one year can be considered "typical." These accounts are poor candidates for participation in a direct billing program.

We recommend the assessor include in the direct billing program only those accounts that have historically reported stable costs.

Audit Program

An audit program is an important function of a business property assessment program. The purpose of an audit is to ensure that taxable property and related information were reported accurately by the taxpayer and were assessed properly by the assessor. In Lake County, the auditor-appraiser's duties include discovering taxable property, identifying potential audits, performing audits, and initiating roll changes.

Mandatory Audits

At the time of our survey, section 469 required an audit of the accounting records of assessee claiming, owning, possessing, or controlling tangible business personal property and trade fixtures with a full value of \$300,000 or more. Rule 192 clarifies the statute by requiring the \$300,000 full value to be reached for each of four consecutive years. Since our survey, the Legislature amended section 469 to raise the value threshold to \$400,000 or more.

We found that the assessor's completed audits meet basic property tax audit procedures. We also found that the assessor solicits waivers of the statute of limitations when audits will not be completed within the four years provided by statute. However, the assessor's business property staff has not completed the mandatory audits for 1996, 1997, 1998, and 1999.

RECOMMENDATION 22: Timely complete all mandatory audits.

The business property staff has approximately 75 mandatory audit accounts, with an average of 19 audits per year. We reviewed eight audit accounts from 1996 to 1999 and noted that four of the eight audits had not been completed.

The mandatory audit program verifies the reporting on the largest business property accounts and forestalls any potentially large assessment errors. Failing to perform mandatory audits permits potentially large assessment errors to persist from year to year. The further removed the audit is from the year being audited, the more difficult it is to obtain the necessary records.

We recommend the assessor bring the mandatory audit program to current status.

Business Property Valuation

When valuing business personal property, assessors generally use valuation factors that are produced by combining price index factors with percent good factors for machinery and equipment. The BOE has developed annual equipment index factors and percent good factors to assist assessors. These are published in BOE's Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

In our previous survey, we recommended the assessor use price index factors found in AH 581. In our current survey, we found that the assessor now uses these factors, with one exception.

RECOMMENDATION 23: Discontinue the use of minimum valuation factors.

The assessor currently establishes minimum valuation factors for commercial, industrial, agricultural, and construction equipment.

Index factors recognize events such as price changes and technological progress, and are intended to reflect the price of a new replacement. The percent good factors are intended to reflect the average loss in value suffered by specific types of properties over their expected

service lives. The percent good factors contained in the handbook are based on the premise that these types of properties lose value as they age.

When valuing property, appraisers may analyze individual property items for deviations from the norm and, if such deviations exist, it is appropriate to adjust the valuation factor to reflect the deviation. However, establishing minimum valuation factors is not an acceptable appraisal practice.

We recommend that the assessor discontinue using minimum valuation factors.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. For lien date 2000, the BOE included these factors in AH 581, Table 6. Computer valuation factors are provided for the categories of personal (\$25,000 or less), mid-range (\$25,000 to \$499,999), and mainframe (\$500,000 or more).

We found that the assessor uses the BOE-prescribed valuation factors for computers.

Leased Equipment

One of the responsibilities of the assessor's business property staff is the discovery and assessment of leased equipment. Assesseees are required to report all leased property (taxable property in their possession, but belonging to others) on the annual business property statement. Assesseees are required to provide the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address.

The auditor-appraiser is responsible for tracking all the leased equipment reported by the lessees and lessors. This tracking also includes the conditional sales contracts reported by financial institutions and other leasing companies. We found that the assessor has an effective leased equipment discovery and assessment program.

Manufactured Homes

The assessment of manufactured homes is different from that of other types of property in California. Certain manufactured homes have been taxable on local assessment rolls since July 1, 1980. Prior to this date, manufactured homes were subject to license fees paid through the Department of Motor Vehicles. A manufactured home is subject to local property taxes if it was first sold new on or after July 1980, or the owner has requested conversion from vehicle license fees to local property taxes. Most requests for conversion from license fees occur when a manufactured home is sold, since sales and use tax is not due for manufactured homes subject to local assessment. Provided it is their primary residence, conversion also allows the owners to qualify for the homeowners' exemption.

Manufactured homes must be classified as personal property. However, manufactured homes are treated differently than other personal property. Sections 5800 through 5842 govern how manufactured homes are valued and assessed. Unlike other personal property, manufactured homes are entered on the secured roll with a base year value and are subject to the annual CCPI inflation factor. The taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments when there are changes in ownership or new construction. The taxable value of a manufactured home is the lesser of its factored base year value or its full cash value on the lien date.

Classification

RECOMMENDATION 24: Classify manufactured homes as personal property.

In our 1995 survey we found that the assessor enrolled all manufactured homes as improvements. During our current survey we found that the assessor continues this practice.

Section 5801(2)(b)(2) provides that a manufactured home shall not be classified as real property for property taxation purposes. The classification of manufactured homes as personal property has several purposes. When classified as personal property, manufactured homes may qualify as business inventory, cannot be subject to possessory interest assessments, and cannot be subject to special assessments that apply only to land and improvements. Classification as personal property also allows for the exemption from local taxation of manufactured homes under the provisions of the Soldiers and Sailors Civil Relief Act.

We again recommend that the assessor classify all manufactured homes as personal property, as required by section 5801.

Full Cash Value

Section 5803(b) provides that the "full cash value," for purposes of subdivision (a), does not include any value attributable to its particular site, if the manufactured home is located on rented or leased land, which would increase or decrease its sale price at that location in comparison to its sale price at some other location on rented or leased land. In determining the "full cash value" of such a manufactured home on rented or leased land, the assessor should take into consideration, among other relevant factors, sales prices listed in recognized value guides for manufactured homes, including, but not limited to, the *Kelley Blue Book Manufactured Housing Guide* and the *National Automobile Association's Mobilehome and Manufactured Housing Appraisal Guide (N.A.D.A.)*. When reviewing manufactured homes for declines in value, the assessor uses the *N.A.D.A.* guide almost exclusively.

RECOMMENDATION 25: Comply with section 5803(b) when enrolling the full cash value of a manufactured home upon a decline in value.

We found that the assessor adjusted certain *N.A.D.A.* values by 20 percent to account for negative site influence when reviewing a manufactured home for a decline in value. In situations where negative site values exist, it is the site, not the manufactured home, that is entitled to a reduction in value. Such negatively impacted sites cannot command the same rental level as comparable sites that do not face the same adverse consequences. As a result, the manufactured home owners pay reduced rents for the low-value sites. However, manufactured homes should be assessed at their full cash values because the homes perform as constructed without any decrease in value.

When valuing manufactured homes for possible declines in value, we recommend that the assessor comply with section 5803(b) in determining full cash value.

Aircraft

General Aircraft

Lake County has 110 general aircraft on the assessment roll, including six historical aircraft. Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook section. On January 8, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft. As stated in LTA 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user. The assessor uses two sources of data to appraise general aircraft. For most appraisals, the assessor uses the *Bluebook*. When data are not available from the *Bluebook*, the assessor uses confirmed sales data.

We found that the assessor correctly assesses general aircraft.

Historical Aircraft

There were six historical aircraft in Lake County for the 1999 lien date. Section 220.5 provides that aircraft of historical significance shall be exempt from taxation only if all of the conditions set forth in subsection (b) are met. One of these conditions is that historical aircraft be available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed. The assessor requires the claimant to file the BOE-approved claim form.

RECOMMENDATION 26: Grant the historical aircraft exemption only upon submission of a timely claim.

We reviewed all six historical aircraft exemptions granted for 1999. The assessor granted one of the six exemptions despite the receipt of an untimely exemption claim. Section 255(a) provides that the affidavits must be filed with the assessor between the lien date and 5 p.m. on February 15. Should an assessee fail to follow a procedure required to receive an exemption, section 260 provides that the assessee waives the exemption.

We recommend the assessor deny the historical aircraft exemption if an aircraft's owner fails to file a claim timely.

Vessels

The assessor processes approximately 1,100 pleasure boat assessments each year. We reviewed eight pleasure boat assessments to determine the assessor's appraisal practices.

RECOMMENDATION 27: Update the market study of vessel values annually.

When a vessel is purchased or moved into Lake County, the auditor-appraiser initially appraises the vessel at market value, using the owner's reported sale price or *A.B.O.S.* valuation guide. A yearly depreciation factor is applied to this initial value. The value is then adjusted each year as long as the ownership of the vessel does not change. The assessor developed the adjustment factors based on a study of boat values.

Although the adjustment factors were determined as accurately as possible when initially compiled, they have not been changed in more than 10 years. This practice assumes the rate of annual depreciation does not change from year to year. However, many factors affecting the vessel market change yearly, or may affect one category of vessels differently from another.

We recommend the assessor annually update the vessel market study. That process will provide the most accurate valuation possible, short of individually appraising each vessel.

APPENDICES

A. County Property Tax Division Survey Group

Lake County Assessment Practices Survey

Chief, County Property Tax Division

Charles Knudsen

Assessment Practices Survey Section Manager

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor

Michael Lebeau

Principal Property Appraiser

Survey Team

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Paul Lane

Senior Specialist Property Appraiser

Glenn Danley

Associate Property Appraiser

Rod Miyatake

Associate Property Appraiser

Raymond Tsang

Associate Property Auditor Appraiser

Kim Trotto

Junior Property Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, if any, and BOE comments on the assessor's response, if any, constitute the final survey report.

The Lake County Assessor's response begins on the next page. The BOE has no comments on the response.



COUNTY OF LAKE
COUNTY ASSESSOR-RECORDER

Courthouse - 255 N. Forbes Street
Lakeport, California 95453
Assessor's Office 707 / 263-2302
Recorder's Office 707 / 263-2293
Fax 707 / 263-3703

DOUGLAS W. WACKER
ASSESSOR-RECORDER

W. MICHAEL WOCHNA
Assistant Assessor-Recorder

August 30, 2001

RECEIVED
SEP 10 2001

County Property Tax Division
State Board of Equalization

Mr. Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Knudsen:

In accordance with Government Code Section 15645 of the California Government Code, I am providing the following response to the State Board of Equalization's Assessment Practices Survey of Lake County.

Although I was not the Assessor at the time the survey was conducted, my staff and I agree with many of the recommendations and are planning to implement the changes necessary to achieve compliance. Some of the recommendations are minor and have already been implemented, while others will hopefully be implemented in the near future with some additional staffing through AB 719 funding we finally obtained this year for the first time.

I wish to express my appreciation to the entire survey team for their professional manner in which they conducted the survey with a minimum of disruption during a very busy time with our Megabyte conversion.

I would also like to acknowledge and thank my staff for their outstanding service to the citizens of Lake County since my appointment as Assessor in April 2001.

Respectfully,

A handwritten signature in black ink that reads "Douglas W. Wacker". The signature is written in a cursive style with a long, sweeping underline.

DOUGLAS W. WACKER
Lake County Assessor-Recorder

County of Lake Assessor
Response to State Board of Equalization
Assessment Practices Survey 2001

Recommendation No. 1 – Obtain fire reports from local fire departments to discover property eligible for disaster relief.

Response: We will attempt to comply, based on the co-operation of local fire agencies.

Recommendation No. 2 – Cite section 531.4 on the tax change form to ensure the county auditor-controller includes section 506 interest on escape assessments where appropriate.

Response: We have complied. Our new property tax system allows inclusion of section 506 interest on escaped assessments.

Recommendation No. 3 – Grant only partial exemptions when property owners submit late-filed church and religious exemption claims.

Response: We have complied. Survey states most done correctly but found several late-filed exemptions receiving full exemptions.

Recommendation No. 4 – Obtain copies of water well permits from county health department.

Response: We will attempt to comply, based on the co-operation with the health department.

Recommendation No. 5 – Document the source of costs used in the appraisal of new construction when using the cost approach.

Response: We have complied.

Recommendation No. 6 – Review private uses at the Lake County Fairgrounds to determine whether taxable possessory interest exist.

Response: We have complied. This year we requested copies of all leases from the Lake County Fairgrounds.

Recommendation No. 7 – Reassess taxable possessory interests upon change in ownership.

Response: We have complied.

Recommendation No. 8 – Add the present value of unpaid future contract rents to the nominal selling prices of possessory interests.

Response: We will comply.

Recommendation No. 9 – Use the appropriate net income when applying the income approach to value a taxable possessory interest.

Response: We will comply.

Recommendation No. 10 – Determine whether government-owned properties located outside those agencies’ boundaries are assessable.

Response: We will comply, as time and staffing allows.

Recommendation No. 11 – Annually value all CLCA property.

Response: We will comply. This is one of our goals to meet this coming year now that we have secured AB 719 funding.

Recommendation No. 12 – Use the appropriate income shape when valuing CLCA properties.

Response: We will comply.

Recommendation No. 13 – Assess non-restricted improvements at the lower of current market value or factored base year value.

Response: We will comply, now that AB 719 funding will help with additional staffing.

Recommendation No. 14 – Utilize periodic CLCA questionnaires to obtain current rental, expense, and compatible use income data.

Response: We will comply, now that AB 719 funding will help with additional staffing.

Recommendation No. 15 – Enroll orchards and vineyards off exemption in the proper year.

Response: We have complied.

Recommendation No. 16 – Enroll orchards and vineyards as improvements.

Response: We have complied, this is already policy.

Recommendation No. 17 – Send annual questionnaires to Timberland Production Zone property owners to discover existing, compatible, nonexclusive uses.

Response: We will comply, now that AB 719 funding will help with additional staffing.

Recommendation No. 18 – Adjust mineral property base year values for depletion resulting from production as required by rule 469.

Response: We have complied.

Recommendation No. 19 – Revise procedures for assessing geothermal properties pursuant to rule 473.

Response: We will comply.

Recommendation No. 20 – Hire at least one auditor-appraiser.

Response: We will comply. Since we have secured AB 719 funding this will enable our office to hire an auditor-appraiser.

Recommendation No. 21 – Include in the direct billing program only those accounts that have historically reported stable costs.

Response: We will comply, now that AB 719 funding will help with additional staffing.

Recommendation No. 22 – Timely complete all mandatory audits.

Response: We will comply. This is one of our goals to meet this year now that we have secured AB 719 funding.

Recommendation No. 23 – Discontinue the use of minimum valuation factors.

Response: We do not agree. We will continue to follow the standard for estimating minimum percent good adopted by the California Assessor's Association's Executive Committee

Recommendation No. 24 – Classify manufactured homes as personal property.

Response: We have complied.

Recommendation No. 25 – Comply with section 5803 (b) when enrolling the full cash value of a manufactured home upon a decline in value.

Response: We do not agree. When market value indicates a lower value than the value indicated in recognized value guides for manufactured homes.

Recommendation No. 26 – Grant the historical aircraft exemption only upon submission of a timely claim.

Response: We have complied. This has always been our policy, however the survey discovered an exemption given in error that has been corrected.

Recommendation No. 27 – Update the market study of vessel values annually.

Response: We will comply, as time and staffing allows.